

# Joint Economic Committee WEEKLY ECONOMIC DIGEST

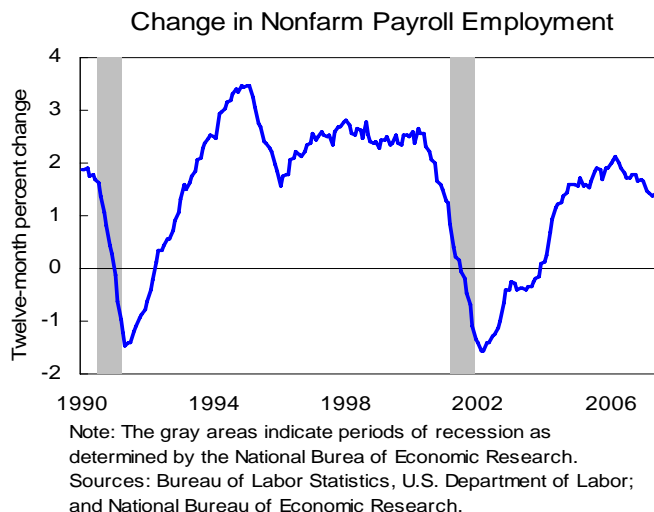
Senator Charles Schumer, Chairman  
Congresswoman Carolyn Maloney, Vice Chair

June 4, 2007

## ECONOMIC NEWS

### Jobs Growth Picked Up in May While the Unemployment Rate Remained at 4½ Percent

**Payroll employment rebounded in May.** Total payroll employment at nonfarm establishments rose by 157,000 jobs last month, following a gain of 80,000 jobs in April. Even so, payroll growth has averaged 137,000 jobs per month over the past three months, somewhat below the average pace of job gains around the start of the year. Payroll employment has grown just 1.4 percent over the past year, well below the pace during the expansion of the 1990s (see chart).



**The unemployment rate was unchanged last month.** The civilian unemployment rate remained at 4.5 percent in May. The percentage of the population with a job remained at 63.0 percent, while the labor force participation rate (the percentage of the population working or looking for work) was also unchanged at 66.0 percent. Both measures remain more than a full percentage point below their levels in March 2001 when the recession began.

**The economy grew more slowly in the first quarter than was previously thought.** Real (inflation-adjusted) gross domestic product grew at an annual rate of just 0.6 percent in the first quarter according to revised estimates by the Department of Commerce. After revision, first-quarter growth was 0.7 percentage point below the Department's advance estimate of 1.3 percent. The downward revision reflected a lower rate of inventory building and higher imports than were originally estimated. Over the past year, GDP has grown by 1.9 percent. That is the slowest four-quarter pace since early 2003.

## IN FOCUS

### Are Jobs Becoming Harder to Find?

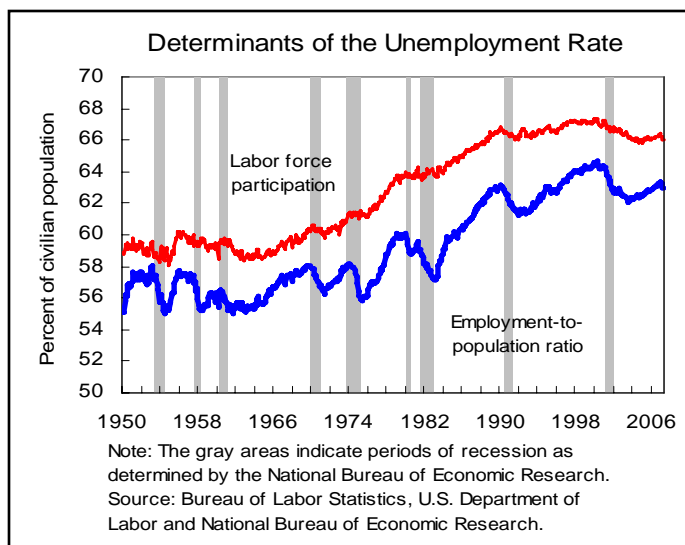
Although the economy slowed sharply in the first quarter, unemployment remained at 4.5 percent, the same rate that prevailed in December. On the surface, it seems that the slowing in overall growth has not affected unemployment. A deeper look at the determinants of the unemployment rate, however, suggests otherwise. In particular, the proportion of the population that is employed has declined so far this year, a pattern that is beginning to raise concerns among economists.

The unemployment rate is defined as the number of people who are unemployed but seeking work as a percentage of the labor force. The unemployment rate thus reflects not only people's employment status, but the degree to which they are participating in the labor force at all. Economists analyze those two influences on the unemployment rate separately by looking at the labor force participation rate (the percentage of the population that is either working or actively looking for work) and the employment-to-population ratio (the portion of the population that is employed).

When people stop actively looking for work—because they retire or are simply discouraged by economic conditions—they are no longer officially counted as members of the overall labor force. A decline in the rate of labor force participation works to lower the unemployment rate even if

*Continued on reverse...*

## SNAPSHOT



# Joint Economic Committee WEEKLY ECONOMIC DIGEST

## THE WEEK AHEAD

DAY	UPCOMING RELEASES
WEDNESDAY 6	Productivity and Costs (First quarter 2007, revised)
THURSDAY 7	Monthly Wholesale Trade: Sales and Inventories (April 2007) Consumer Credit (April 2007)
FRIDAY 8	U.S. International Trade in Goods and Services (April 2007)

**WEDNESDAY,  
June 6th:**  
*Q1 productivity  
growth will likely be  
revised down*

## ECONOMIC STATS AT A GLANCE

KEY INDICATORS	MONTH			QUARTER			YEAR	
	May	Apr	Mar	2007 Q1	2006 Q4	2006 Q3	2006	2005
Real GDP Growth (%)	—	—	—	0.6	2.5	2.0	3.3	3.2
Unemployment (% of labor force)	4.5	4.5	4.4	4.5	4.5	4.7	4.6	5.1
Labor Productivity Growth (%)	—	—	—	1.7	2.1	-0.5	1.6	2.1
Labor Compensation Growth (%)	—	—	—	3.2	3.6	3.6	3.1	3.3
CPI-U Inflation (%)	n.a.	4.9	7.4	3.8	-2.1	3.1	3.2	3.4
Core CPI-U Inflation (%)	n.a.	2.4	1.2	2.3	1.9	3.0	2.5	2.2

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Labor Statistics, Department of Labor.

Notes: Except where otherwise noted, values in the table represent percent changes at seasonally adjusted annual rates. Productivity is output per hour worked in private nonfarm businesses. The Employment Cost Index is for civilian workers in government and business. Core CPI-U inflation is the percent change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The designation "n.a." denotes that data are not yet available.

## IN FOCUS (Continued)

there has been no overall increase in the relative number of jobs. Alternatively, if the labor force participation rate does not change, then a decline in the employment-to-population ratio raises the unemployment rate.

Short-term, cyclical variation in the unemployment rate largely reflects changes in the employment-to-population ratio (see Snapshot). While the labor force participation rate is also affected by the business cycle, it is largely governed by demographic shifts (such as the onset of baby-boom retirements). The employment-to-population ratio may also reflect trends (such as the higher trend rate of productivity growth since the mid-1990s), but it is a clearer indicator of cyclical volatility over short periods.

Since the start of the year, both the employment-to-population ratio and the labor force participation rate have declined and those declines have offset each other in the unemployment rate. While both those declines might reflect the slower pace of economic growth so far this year, the drop in the employment-to-population ratio is beginning to raise concerns that finding a job has become harder for many Americans.

Over the course of last year, the employment-to-population ratio rose by 0.6 percentage point to 63.4 percent in December. Since then, however, the employment-to-population ratio has declined by 0.4 percentage point to 63.0 percent. That decline is small when compared with the kinds of declines experienced during recessions, but it is large enough to prompt some concern. If the participation rate had not also fallen by 0.4 percentage point since December, the decline in the employment-to-population ratio this year would have raised the official unemployment rate by a significant 0.6 percentage point to over 5.0 percent.

Both those indicators could turn around in coming months. Until then, however, each warrants continued scrutiny.